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Chairman's Report to the Shareholders

PENSIONFUND REALTY LIMITED

(Le Fonds de Pension Immobilier Limitée)

Pensionfund Realty Limited has undergone another year of substantial growth. Good support has been given by the shareholders in taking up new investments offered during the year. The contents of this report, the first of its type for your Company, is a display of the progress that has been made since the inception of the Company approximately four years ago. Your Company now has one of the largest portfolios of real estate owned by Pension Funds in North America.

The assets of Pensionfund Realty Limited and Pensionfund Properties Limited, administered by Morguard Properties Limited have grown from \$261,194,000 to \$349,862,000 during the past year. In this report I will concentrate on Pensionfund Realty Limited and exclude Pensionfund Properties Limited as that portfolio is covered by the Chairman of that group. The assets of this company have grown from \$40,927,000 as at 31st December 1977 to \$117,767,000 as at 30th September 1978. This growth in assets displays the desire of the shareholders to invest in real estate as an addition to their many other investments.

The less dynamic growth in income from operations (\$4,196,000/1978 vs. \$3,120,000/1977) in relation to asset growth, is attributable to three causes:

- 1 The change in fiscal year-end from December 31st to September 30th reflecting only nine months of operation.
- 2 Purchases, such as 50 Bloor Street West, Toronto, are in the process of development and will not add to the income until completion.
- 3 New acquisitions, such as the Reisman portfolio, Toronto, that were taken on stream during the course of the year did not produce a full 9 months results.

In a supplementary note to the balance sheet, the Adviser Morguard Properties Limited has stated that in its opinion those assets that were income-producing investments during the year reflect a growth in value, the amount being \$7,364,000 over cost or some \$4,300,000 over last year's opinion. For clarification, developments in progress are appraised at cost until they reach the break-even point or one year after substantial completion, whichever is the sooner.

Highlights

Some of the major acquisitions during the year were:

The closing of the Reisman purchase in Toronto. This portfolio comprised approximately forty suburban office and industrial buildings located along Highway 401 in the northern sections of Metropolitan Toronto.

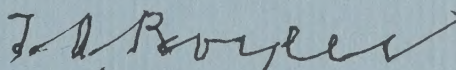
The completion and final leasing of the fifth phase of Meadowvale Corporate Square, Mississauga, Ontario, which is now on stream as a successful investment.

The acquisition of 50 Bloor Street West, Toronto, a major retail building is currently in the final stages of development. Holt Renfrew is the major tenant and is expected to take possession and open its doors for business in early March of 1979.

The commencement of an addition to the Inn of the Provinces, Ottawa; this project comprises an addition of 144 rooms to be added to the existing hotel. The addition is expected to be ready for occupancy early in 1980.

The real estate markets across Canada, during the year, have been stable to sluggish creating an over-supply of certain types of product in some cities. With interest rates again on the rise, and the Federal Government attempting to curtail its deficits, it is likely that next year will not offer substantial improvement in the general marketplace. It does, however, appear that the economies of Ontario and British Columbia seem to be absorbing the over supply and could show some improvement, while Alberta continues to absorb most of the space supplied.

On behalf of the Board of Directors, I would also like to express our thanks to the Officers and staff of the Adviser and those other people who were instrumental in contributing to the Company's success during the past fiscal year.



T. A. Boyles
Chairman of the Board

PENSIONFUND REALTY LIMITED
(Le Fonds de Pension Immobilier Limitée)

On behalf of the Board

[Signature]
Director

	September 30, 1978 \$	December 31, 1977 \$
LIABILITIES		
Bank Loan	1,100	—
Notes Payable	23,575	—
Accounts Payable and Accrued Liabilities	2,075	234
Deposits by Shareholders	—	1,038
Deferred Revenue	479	—
Mortgages Payable	1,550	—
Bond Interest Payable	1,024	617
Bonds Payable	87,678	38,781
	117,481	40,670
SHAREHOLDERS' EQUITY		
Capital		
Authorized—		
25,000 Class A shares		
250,000 Class B shares		
Issued—		
24,000 Class A shares	240	230
16,440 Class B shares	16	7
	256	237
Contributed Surplus	30	20
	286	257
	117,767	40,927

Auditors' Report

TO THE SHAREHOLDERS

We have examined the balance sheet of Pensionfund Realty Limited (Le Fonds de Pension Immobilier Limitée) as at September 30, 1978 and the statement of operations and amounts distributable and payable to bondholders for the period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada,
October 31, 1978.

In our opinion, except that depreciation has not been provided as described in note 1, these financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Statement of Operations and Amounts Distributable and payable to Bondholders

Nine Months Ended September 30, 1978 (in thousands of dollars)

PENSIONFUND REALTY LIMITED
(Le Fonds de Pension Immobilier Limitée)

	Nine months ended September 30, 1978 \$	Year ended December 31, 1977 \$
RENTAL INCOME AND RECOVERIES	7,479	5,414
OPERATING EXPENSES		
Maintenance and repairs	461	360
General operating expenses	249	164
Utilities	560	578
Realty taxes	1,385	855
Interest	139	—
Advisory fees—		
Asset administration	352	259
Property management	137	78
	3,283	2,294
INCOME FROM OPERATIONS	4,196	3,120
Interest income	19	134
EARNINGS FROM OPERATIONS BEFORE CAPITAL EXPENDITURES	4,215	3,254
Capital expenditures	284	210
AMOUNTS DISTRIBUTABLE TO BONDHOLDERS	3,931	3,044
AMOUNTS PAYABLE TO BONDHOLDERS — BEGINNING OF PERIOD	617	173
	4,548	3,217
AMOUNTS PAID DURING THE PERIOD	3,524	2,600
AMOUNTS PAYABLE TO BONDHOLDERS — END OF PERIOD	1,024	617

Notes to Financial Statements September 30, 1978

PENSIONFUND REALTY LIMITED
(Le Fonds de Pension Immobilier Limitée)

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

- (a) Income recognition
 - (i) Income and operating expenses are recorded on an accrual basis.
 - (ii) Income and operating expenses are recorded commencing with the month in which the property attains the break-even point in cash flow or after a maximum period of one year after substantial completion of the property.
- (b) Income-producing properties

The corporation's liability for payment of principal and participating interest on bonds payable is limited to the income distributable to bondholders generated by the income-producing properties. The computation of amounts distributable to bondholders does not include any deduction for depreciation. For this reason the company does not record depreciation in its accounts.

The income-producing properties include land, buildings and equipment.
- (c) Operating expenses

Certain operating expenses are recoverable from bondholders and shareholders and for this reason have not been reflected in the statement of operations and amounts distributable and payable to bondholders. These expenses amount to \$20,977 (1977—\$28,258).

2. NOTES PAYABLE

During the period the company entered into a Financing Agreement, dated March 13, 1978, with the Canadian Imperial Bank of Commerce, which provided for a revolving term credit in the aggregate principal amount of \$34,000,000 for the purchase and completion of 50 Bloor Street West. As at September 30, 1978 the bank has been provided with term notes from the company in the amount of \$23,574,788. The term notes bear interest at the rate of 6% until June 30, 1980 and thereafter at the rate of 7%, and mature June 30, 1983 (or earlier based on the yield on the Project).

As security for the term notes the company had to meet the following conditions:

- (a) Provide the bank with Permanent Loan Commitments from the investors. All advances under the Permanent Loan Commitments are subscriptions by the respective investors for bonds. The bonds were issued June 30, 1978 under a Trust Deed dated May 11, 1978 and are being held by the Trustee, to be issued to the investors on the delivery dates specified in the Bond Purchase Agreement.
- (b) Provide the bank with an executed Debenture in favour of the bank, pledged as collateral pursuant to a Pledge Agreement. The debenture, dated June 27, 1978 in the principal amount of \$34,000,000 is payable on demand and bears interest at a nominal rate of 7% per annum. However, under the Pledge Agreement, the bank may realize upon the security only in the event of certain stipulated defaults.

The security under the Debenture for the payment of the principal and interest and all other monies and liabilities from time to time secured thereby, consists of:

 - (i) a first mortgage of the Project;
 - (ii) an assignment of all leases and agreements to lease premises in the Project and all monies payable by the lessees thereunder and all guarantees thereof or indemnities in respect thereof; and
 - (iii) to the extent that the company is legally entitled to do so, an assignment of all interest of the company in certain agreements respecting the Project and all guarantees of the obligations of any party to any of such agreements.
- (c) The execution and delivery of the Trust Deed to the Trustee and the execution and delivery to the Trustee of the Bonds in the aggregate principal amount of \$34,000,000.

3. MORTGAGES PAYABLE

Mortgages payable consist of mortgages with interest rates varying from 7% to 9½%.

Specific land and buildings are pledged as security for the mortgages.

Principal repayments under the terms of the mortgages are as follows:	\$ (in thousands of dollars)
Years ending September 30, 1979.....	1,111
1980.....	410
1981.....	7
1982.....	8
1983.....	9
Subsequent to 1983.....	5
	<u>1,550</u>

4. BONDS PAYABLE

The bonds are secured by Trust Indentures which constitute fixed and specific mortgages on the income-producing properties and developments in progress as follows:

Income-producing property	Bonds payable	Amount (in thousands of dollars)
The Meadowvale Corporate Centre, Mississauga, Ontario.	6% participating bonds, Meadowvale series, due December 30, 2000	11,788

Income-producing property	Bonds payable	Amount (in thousands of dollars)
Inn of the Provinces, Ottawa, Ontario.	3% participating bonds, Inn of the Provinces series, due December 30, 2001	24,100
86th Avenue Building, Surrey, British Columbia.	3% participating bonds, 86th Avenue, Surrey series, due November 1, 2001	2,625
Bloordale Square, Etobicoke, Ontario.	3% participating bonds, Bloordale Square series, due December 15, 2001	2,795
Truck Centre, Ottawa, Ontario.	3% participating bonds, Truck Centre, Ottawa series, due February 18, 2001	1,228
Meridian Park, Calgary, Alberta.	3% participating bonds, Meridian Park, Calgary series, due December 1, 2001	1,370
Franklin Industrial Park, Calgary, Alberta.	3% participating bonds, Franklin Park, Calgary series, due October 6, 2002	1,243
Reisman Industrial Portfolio, Toronto, Ontario	3% participating bonds, Toronto Industrial series, due March 31, 2003	39,849
Centre South, Edmonton, Alberta	3% participating bonds, Centre South, Edmonton series, due August 1, 2003	2,680
		<u>87,678</u>

Estimated costs to complete developments in progress or projects committed are \$14,271,000 of which \$5,576,000 has been contributed by bondholders and \$8,695,000 is being funded through bank financing in accordance with the terms as described in note 2.

5. CAPITAL STOCK

The Class A shares are voting, participating and non-redeemable, with a par value of \$10 each. Class A shares may only be issued to registered pension funds or plans. During the year, 2,000 shares were issued for \$20,000 cash and 1,000 shares were cancelled.

The Class B shares are voting and participating with a par value of \$1 each and are redeemable at the amount paid up thereon. Class B shares may only be issued to pension funds or plans which are the holders of 1,000 Class A shares. During the year, 9,212 shares were issued for \$9,212.

Under a resolution of the board confirmed by articles of amendment dated July 17, 1978, the authorized capital of the company was increased by the creation of 225,000 additional redeemable voting and participating Class B shares with a par value of \$1 each.

6. CONTRIBUTED SURPLUS

	1978	1977
	(in thousands of dollars)	
BALANCE—BEGINNING OF PERIOD	20	10
Additions during the period—		
1,000 Class A shares (1977—1,000) were purchased for cancellation at nominal value, resulting in an additional \$10,000	10	10
BALANCE—END OF PERIOD	<u>30</u>	<u>20</u>

7. CAPITAL EXPENDITURES

Funds needed for capital expenditures are funded from earnings from operations.

Capital expenditures include the following:

	1978	1977
	(in thousands of dollars)	
Leasing fees	63	11
Tenant improvements	181	134
Refurbishing costs	40	65
	<u>284</u>	<u>210</u>

8. INCOME TAX POSITION

The company is a pension corporation and as such is exempt from federal and provincial income taxes.

9. COMMITMENTS

The company has entered into an advisory contract which expires in 1980 with Morguard Properties Limited whereby that company provides investment advice and administrative services for an agreed fee.

10. COMPARATIVE FIGURES

Certain of the 1977 figures on the balance sheet and the statement of operations and amounts distributable and payable to bondholders have been reclassified to conform to the 1978 financial statement presentation.

11. CHANGE IN YEAR-END

Effective January 1, 1978, the fiscal year was changed from December 31 to September 30.

SUPPLEMENTARY UNAUDITED INFORMATION

Management of the adviser has made an in-house valuation of the income-producing properties of approximately \$91,482,000 (1977—\$39,365,000) by capitalizing the future earnings of each property at the applicable rate. This amount is exclusive of the Bloordale property which has been included at cost which includes a value yet to be substantiated attributable to the development potential of the property.

This dollar value is the aggregate of all properties and does not necessarily represent the cash that would be realized should a single sale of all the properties take place. The excess of this value of the income-producing properties over their cost is \$7,364,000 (1977—\$3,053,200). This excess has not been reflected in these financial statements.

Chairman's Report to the Shareholders

PENSIONFUND PROPERTIES LIMITED

(Les Immeubles du Fonds de Pension Limitée)

Your Company continued the investment operations of MEPC Canadian Properties Limited upon the amalgamation which took place on September 30th, 1977. Following this unique transaction, a smooth transition from a public company to a private investment company, wholly owned by Canadian pension funds, took place and without exception, the entire team of MEPC joined the Adviser, Morguard Properties Limited to manage the portfolio in accordance with expectations.

During this fiscal year the book value of income-producing properties in the portfolio increased to \$203,784,000 from \$195,784,000 after allowing for a significant and profitable sales program related principally to the Company's two investments in Seattle, Washington. A number of smaller property acquisitions and disposals were made during the year and these will continue to form part of the Company's program to cull, enlarge and redevelop investments when appropriate.

Net earnings from operations of the Company increased to \$7,376,000 this past fiscal year compared to \$3,169,000 in fiscal 1977, after providing for depreciation in the amount of \$1,008,000 in 1978 (1977—\$1,258,000). In fiscal 1978 there was provision made for income taxes payable in the amount of \$49,000 (1977—\$2,743,000). In addition gains on the disposal of investment properties (including related foreign exchange gains) increased to \$5,572,000 this past fiscal year compared to \$1,488,000 in fiscal 1977.

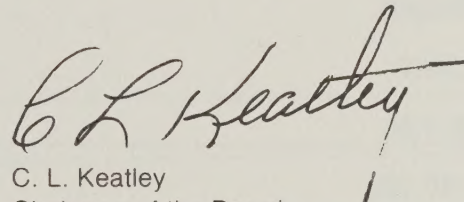
During fiscal 1978 your Company commenced the development of an office tower in Calgary, Alberta and completion is projected for the fall of 1979. In the brisk Calgary office market this project is substantially prelet with approximately 37% or 50,000 square feet of the building remaining for lease. The building is to be named after Canada Trust.

In fiscal 1978 your Company, through the Adviser, commenced the planning of a major mixed-use office and retail development in downtown Edmonton. The shareholders will be hearing more of this potential investment in the year ahead.

Morguard Properties Limited has informed the shareholders that in its opinion the value of the portfolio, as at the end of the fiscal year, stood at \$252,533,000 some \$47,670,000 in excess of the cost of the income-producing properties.

Comments concerning real estate market conditions and expectations have been made in reports accompanying this one. While your Company may not be able to look forward to strong short term real estate markets throughout Canada, it will benefit from regional strengths and make progress overall because of its regional and product diversity, quality and management capability.

On behalf of the Board of Directors, I would like to thank all investors for their support, interest and dedication. In addition, I would like to express the thanks of the Directors and investor-shareholders for the efforts of all the Advisers, officers and staff in making this an excellent first year.



C. L. Keatley
Chairman of the Board

Consolidated Balance Sheet September 30, 1978 (in thousands of dollars)

PENSIONFUND PROPERTIES LIMITED

(Les Immeubles du Fonds de Pension Limitée)

[illegible]

On behalf of the Board

C F Breen

Director

W. H. Miller

Director

LIABILITIES	1978 \$	1977 \$
Bank Loan	—	1,500
Accounts Payable and Accrued Liabilities	4,475	6,964
Deferred Revenue	445	374
Income Taxes Payable	648	661
Long-Term Debt and Other Financing	136,914	130,068
	142,482	139,567

SHAREHOLDERS' EQUITY

CAPITAL

Authorized—		
60,000,000 Common shares without par value		
Issued—		
8,070,000 Common shares	22,014	22,014
Contributed Surplus	58,686	58,686
Retained Earnings	8,913	—
	89,613	80,700
	232,095	220,267

Auditors' Report

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pensionfund Properties Limited (Les Immeubles du Fonds de Pension Limitée) as at September 30, 1978 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978, and the results of its operations and the source and use of its funds for the year then ended in accordance with generally accepted accounting principles.

Campbell Sharp

Chartered Accountants

Toronto, Canada
October 30, 1978

Consolidated Statement of Earnings and Retained Earnings

Year Ended September 30, 1978 (in thousands of dollars)

PENSIONFUND PROPERTIES LIMITED
(Les Immeubles du Fonds de Pension Limitée)

	1978 \$	1977 \$
INCOME		
Rental income and recoveries	33,989	30,205
Trading profits	—	529
	<u>33,989</u>	<u>30,734</u>
EXPENSES		
Property	13,882	12,715
Interest — net	10,610	9,714
Administrative and general	1,064	1,135
	<u>25,556</u>	<u>23,564</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	8,433	7,170
Depreciation	1,008	1,258
EARNINGS BEFORE INCOME TAXES	7,425	5,912
Income taxes	49	2,743
NET EARNINGS FROM OPERATIONS	7,376	3,169
Gain on disposal of investment properties including related foreign exchange gain of \$1,112,000 and after deducting estimated U.S. income taxes of \$534,000 (1977—\$450,000)	5,572	1,488
NET EARNINGS	12,948	4,657
DIVIDENDS PAID	4,035	
RETAINED EARNINGS	8,913	

Consolidated Statement of Source and Use of Funds

Year Ended September 30, 1978 (in thousands of dollars)

PENSIONFUND PROPERTIES LIMITED

(Les Immeubles du Fonds de Pension Limitée)

	1978 \$	1977 \$
FUNDS PROVIDED BY		
OPERATIONS		
Net earnings	7,376	3,169
Depreciation	1,008	1,258
Amortization of leasing commissions and other expenses	104	813
Deferred income taxes	—	2,272
CASH FLOW from operations	8,488	7,512
Gain on disposal of investment properties	5,572	1,938
CASH FLOW for the year before extraordinary item	14,060	9,450
Surrender cost of employee stock options	—	529
CASH FLOW for the year	14,060	8,921
Annual payments on long-term debt	3,741	3,727
	10,319	5,194
Dividends paid	4,035	1,286
NET FUNDS available from operations	6,284	3,908
NEW FINANCING		
Additional long-term debt and other financing	12,736	4,880
Issue of shares	—	81,091
NET PROCEEDS from disposal of investment properties less gain on disposal included in cash flow for the year	13,462	2,655
DECREASE in first mortgages receivable	3,373	—
	35,855	92,534
FUNDS USED FOR		
Investment in real estate	19,034	16,113
Additional repayments of long-term debt	2,149	4,015
Redemption of preference shares	—	80,583
Increase in first mortgages receivable	—	411
Increase in other assets	176	458
Amalgamation costs	—	1,000
Reduction of deferred income taxes	—	485
	21,359	103,065
INCREASE (DECREASE) IN FUNDS	14,496	(10,531)
FUNDS, beginning of year	(6,210)	4,321
FUNDS, end of year	8,286	(6,210)

Notes to Consolidated Financial Statements September 30, 1978

PENSIONFUND PROPERTIES LIMITED
(Les Immeubles du Fonds de Pension Limitée)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General

The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

(b) Consolidation

The consolidated financial statements include:

- (i) the accounts of Pensionfund Properties Limited and its subsidiary companies, and
- (ii) the 50% share of the assets, liabilities and earnings pertaining to the Company's interest in unincorporated joint ventures.

(c) Capitalization of Costs

The Company follows the policy of capitalizing, as a part of the cost of acquisition and development of properties:

- (i) direct carrying costs such as interest, realty taxes and other costs which pertain to such properties,
- (ii) the applicable portion of administrative overhead, professional fees and interest on general borrowings, and
- (iii) rental income and operating expenses during the period of development.

The following amounts were capitalized during the fiscal years ended September 30, 1978 and 1977:

	1978	1977
	(in thousands of dollars)	(in thousands of dollars)
	\$	\$
Interest	1,219	1,318
Property taxes and other costs	281	513
Net rental income	(251)	(376)
	<u>1,249</u>	<u>1,455</u>

(d) Income Recognition

- (i) Income and operating expenses are recorded commencing with the earlier of the month in which the property attains the break-even point in cash flow and after a maximum period of one year after substantial completion of the property.
- (ii) Income from property sales is recognized when at least 15% of the sale price has been received in cash, title has been transferred to the purchaser and other material conditions of sale have been met.

(e) Depreciation

Depreciation is recorded on income-producing properties on a 6% forty-year sinking fund basis. Under this method depreciation is charged to income in an amount which increases annually, consisting of a fixed annual sum, together with interest, compounded at the rate of 6% per annum so as to fully depreciate the buildings over their anticipated useful lives.

(f) Currency Translation

- (i) Long-term debt payable in United States funds has been expressed in Canadian dollars at the rate of exchange prevailing when the funds were received. (See Note 8)
- (ii) Other assets and liabilities in United States funds have been expressed in Canadian dollars at the rate of exchange prevailing at the date of the balance sheet.

(g) Unamortized Leasing Commissions and Other Expenses

- (i) Leasing commissions are amortized over periods not exceeding 10 years.
- (ii) Financing expenses are amortized over the terms of the respective debt.

2. FIRST MORTGAGES RECEIVABLE

First mortgages receivable bear interest at rates from 9% to 10½% and mature as follows:

	(in thousands of dollars)
	\$
1979	53
1980	95
1981	135
1982	46
1983	50
Subsequent to 1983	1,759
	<u>2,138</u>

3. INCOME-PRODUCING PROPERTIES AND DEVELOPMENTS IN PROGRESS, at cost

	Income-Producing Properties		Developments In Progress	
	1978	1977	1978	1977
	(in thousands of dollars)			
	\$	\$	\$	\$
Land	46,365	45,959	4,393	4,966
Buildings and improvements	158,498	149,694	—	—
Construction in progress	—	—	7,767	10,848
	204,863	195,653	12,160	15,814
Accumulated depreciation on buildings and improvements	1,079	—	—	—
	203,784	195,653	12,160	15,814

4. DIVIDEND RESTRICTIONS

The Trust Deeds and Trust Indentures under which the First Mortgage Bonds and Sinking Fund Debentures are issued, contain certain restrictions on the declaration or payment of dividends on common shares so long as any of the said Bonds or Debentures are outstanding.

5. INTEREST

Interest expense included the following:

	1978	1977
	(in thousands of dollars)	
	\$	\$
Interest on long-term debt	11,967	10,988
Interest on bank loans and other indebtedness	193	305
	12,160	11,293
Less: Interest applicable to properties under development	1,219	1,318
	10,941	9,975
Less: Income from short-term investments	331	261
Interest expense—net	10,610	9,714

6. COMMITMENTS

(i) Capital Expenditures

As at September 30, 1978, expenditures of \$10,098,000 will be required to complete the current development program.

(ii) Land Leases

The aggregate minimum rental obligation under land leases is as follows:

1979 to 2010 —	\$153,000
2011 to 2026 —	130,000
2027 to 2058 —	82,000
2059 to 2061 —	74,000
2062 to 2069 —	60,000

(iii) Advisory Agreement

The Company has entered into an advisory agreement expiring in 1979 with Morguard Properties Limited whereby that company provides investment advice and administrative services for an agreed fee.

7. DEFINITION OF FUNDS

	1978	1977
	(in thousands of dollars)	
	\$	\$
Cash	241	113
Short-term investments	11,533	1,004
Rents and sundry receivables	851	918
Prepaid expenses	1,229	1,254
Bank loans	—	(1,500)
Accounts payable and accrued liabilities	(4,475)	(6,964)
Deferred revenue	(445)	(374)
Income taxes payable	(648)	(661)
	8,286	(6,210)

8. LONG-TERM DEBT AND OTHER FINANCING

	Sinking Fund Requirements	Principal Balance	
		1978	1977
		(in thousands of dollars)	
		\$	\$
First Mortgage Sinking Fund Bonds			
6¾% 1982 Series A	\$125	1,320	1,484
6% 1983 Series	25	271	271
8½% 1991 Series	130	2,960	3,090
10½% 1991 Series	62	1,091	1,153
5% 1983 Series (U.S. \$1,687)	125	1,828	1,963
6% 1987 Series (U.S. \$1,700)	105	1,838	1,951
7½% 1988 Series (U.S. \$1,383)	65	1,480	1,549
8% 1991 Series (U.S. \$1,333)	130	1,345	1,476
		<u>12,133</u>	<u>12,937</u>
Mortgages Payable			
6% to 11½% (average rate approximately 9½%)		71,096	62,910
Sinking Fund Debentures			
8% 1991 Series A	\$240	5,495	5,689
8¾% 1994 Series B	343	8,702	9,089
9½% 1995 Series C	686	18,575	19,208
11% 1997 Series D (Commencing in 1979)	686	19,900	20,000
		<u>52,672</u>	<u>53,986</u>
Notes Payable		—	235
Interim financing—development project			
Bank loans		737	—
Advances from shareholders		276	—
		<u>1,013</u>	<u>—</u>
		<u>136,914</u>	<u>130,068</u>

LONG-TERM DEBT AND OTHER FINANCING is repayable approximately as follows: (after deducting amounts currently held for sinking fund requirements)

	Year Ending September 30						Total
	1979	1980	1981	1982	1983	Subsequent	
	\$	\$	\$	\$	\$	\$	\$
First Mortgage Sinking Fund Bonds	697	767	767	1,642	2,006	6,254	12,133
Mortgages payable	2,109	2,466	2,992	2,040	3,601	57,888	71,096
Sinking Fund Debentures	1,467	1,955	1,955	1,955	1,955	43,385	52,672
Interim financing	1,013	—	—	—	—	—	1,013
	<u>5,286</u>	<u>5,188</u>	<u>5,714</u>	<u>5,637</u>	<u>7,562</u>	<u>107,527</u>	<u>136,914</u>

Translation of U.S. dollar debt at the rate of exchange prevailing at September 30, 1978 would increase long-term debt by \$971,000.

9. INCOME TAX POSITION

The Company is a pension corporation and as such is exempt from Canadian Federal and Provincial income taxes.

Income taxes of \$49,000 charged to earnings from operations are applicable to earnings of certain subsidiaries which were wound up during the year.

10. COMPARATIVE FIGURES

The comparative figures at September 30, 1977, reflect the following:

- The consolidated balance sheet of the Company as at September 30, 1977, after giving effect to the amalgamation with M.E.P.C. Canadian Properties Limited and the redemption of the preference shares issued under such amalgamation.
- The consolidated statement of earnings before extraordinary items of the predecessor company, M.E.P.C. Canadian Properties Limited.
- The consolidated statement of source and use of funds of the predecessor company, M.E.P.C. Canadian Properties Limited, adjusted to give effect to the amalgamation, the redemption of the preference shares, acquisition costs and other amalgamation adjustments.

SUPPLEMENTARY UNAUDITED INFORMATION

Management of the adviser has made an in-house valuation of the income-producing properties of approximately \$252,533,000 by capitalizing the future earnings of each property at the applicable rate.

This dollar value is the aggregate of all properties and does not necessarily represent the cash that would be realized should a single sale of all the properties take place. The excess of this value of the income-producing properties over their cost is \$47,670,000. This excess has not been reflected in these financial statements.

Adviser's Report on Operations

MORGUARD PROPERTIES LIMITED
(Les Propriétés Immobilières Morguard Limitée)

General Comments

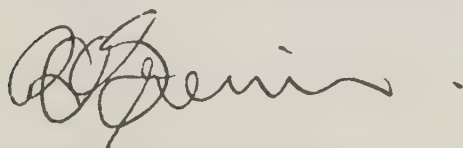
A profound evolution has taken place within Morguard Properties Limited in the past three and a half years since its creation. The greatest change took place during 1977/1978 as a result of the incorporation of Pensionfund Properties Limited for the pension funds, and the subsequent amalgamation with M.E.P.C. Canadian Properties Limited. The growth of administered assets since the incorporation of Morguard Properties Limited is developed on a chart shown in the financial part of this report. During this twelve month period, the Company has fulfilled a significant number of its principal objectives, including that of establishing the full depth of expertise required to operate a large property portfolio. The Company now has established a network of ten offices across the country giving full operational management to the assets of Pensionfund Realty Limited and Pensionfund Properties Limited in major urban centres in Canada.

Coupled with this is the continuing development of a new business team active in the major growth centres across the country. Through their efforts a growth in assets has taken place of approximately \$75,000,000. Most pleasing has been the support given by the pension funds toward the proposals which have been put forward during this period.

We have just come through an unexciting and somewhat difficult year in the Canadian real estate markets, with a continuation of the effects of over supply in most centres. Good opportunities have been in short supply and those transactions which have taken place appear to have been completed at very low yields. Nevertheless, some significant and exciting transactions were completed this year with the purchase of the 50 Bloor Street West, Toronto project, and the Reisman industrial portfolio, as well as the very favourable sale of U.S. assets known as South Centre Corporate Square, and Century City in Seattle.

Your companies have recorded a satisfactory year of operations. Pensionfund Properties Limited had net earnings per common share from operations of 92 cents and earnings for the year of \$1.61 per share, and a cash flow per common share from operations of \$1.05 and a total cash flow per common share for the year of \$1.74. The substantial increase in the earnings for the year over the operational earnings was as a result of the contribution of \$4,480,000 from the sale of the Seattle properties of which \$3,630,000 was the South Centre Corporate Square portion. Development of that asset during the year resulted in substantial value creation.

Pensionfund Realty Limited's actual weighted return on invested dollars of \$57,495,000 was 8.76% as compared to the estimated initial return on the fifty-four properties of 8.74%.



R. A. GREINER, F.R.I.,
President and Chief Operating Officer

During the course of 1978 the assets under administration by Morguard Properties Limited increased by approximately 30%. In recognition of this increase and the potential future growth, Morguard Properties Limited will put into operation an upgraded electronic data processing system designed for additional capacity and flexibility in management information.

During the fiscal 1977/1978 year, developments were completed which totalled approximately \$19,000,000. The present budget indicates \$25,000,000 will be required to complete committed developments and acquisitions, of which \$17,500,000 will be spent in fiscal 1978/1979.

Our acquisition programme will continue to be aggressive in the market place for good investment opportunities throughout the country. In our opinion, the market for purchasing fully developed investment properties will continue to remain highly competitive and yields will not change substantially. We do however, expect there will be a reasonable supply of good offerings available.

Outlook

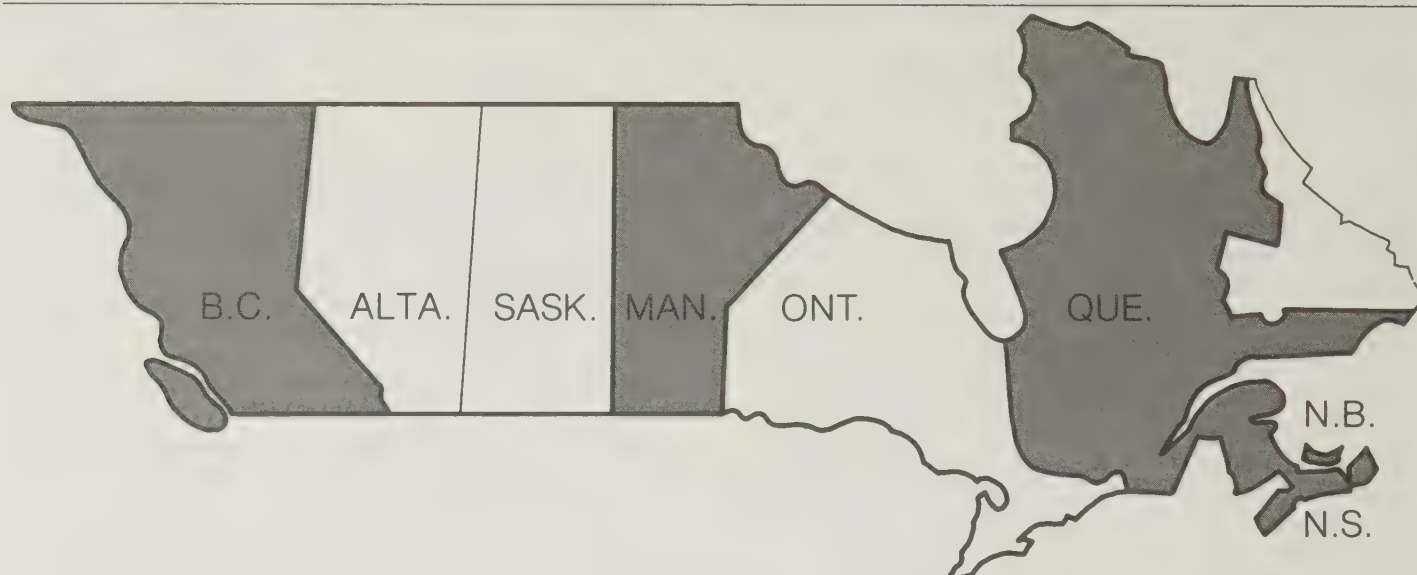
We anticipate that 1978/1979 will continue at least in the early stages, to be a year of moderate growth. There are signs, however obscure, that changes are beginning to take place in the attitudes and expectations of Canadians. Various levels of governments appear to be recognizing the damaging effects of uncontrolled expenditure and rapid inflation. It is hoped that at municipal levels, planning authorities will recognize present needs and that a more positive and productive approach will be taken. Some results are being noticed, but the effects of any corrective measures take time and it may be in the latter part of the year before we see a significant benefit. U.S. and Canadian dollar differences are starting to have their effects on supply segments of our construction market, in that certain building components such as concrete, are finding good markets south of the border. In heated markets such as we have in Alberta, this is showing up as rationing and may, if it continues, result in greater construction costs in the Canadian sphere of activity. It will bear some watching. There is nevertheless, reason for optimism about this country's economy and with the fundamental strengths that appear to be the basis of this Company, we feel this challenge will be well met.

Once again, we would like to express thanks and appreciation to our shareholders for their fine support and to our staff for their dedication to ensuring that this Company and Pensionfund Realty/Pensionfund Properties Limited will be a truly unique and successful enterprise.

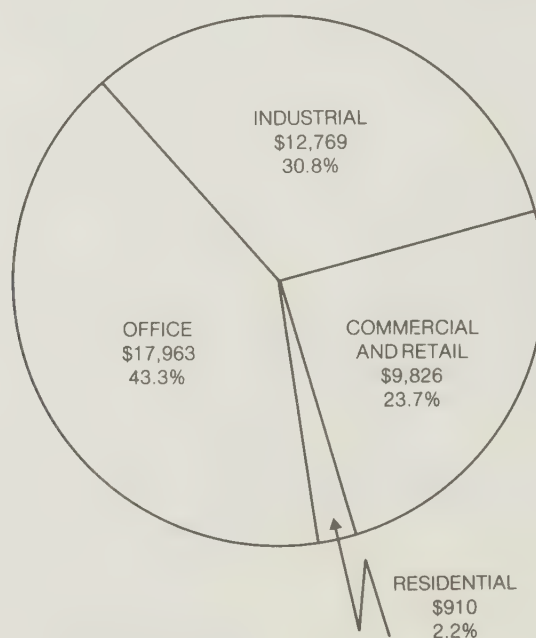


W. R. BADUN, P.ENG., M.B.A.,
Chairman of the Board

Property revenues by class and geographical area (\$000's)



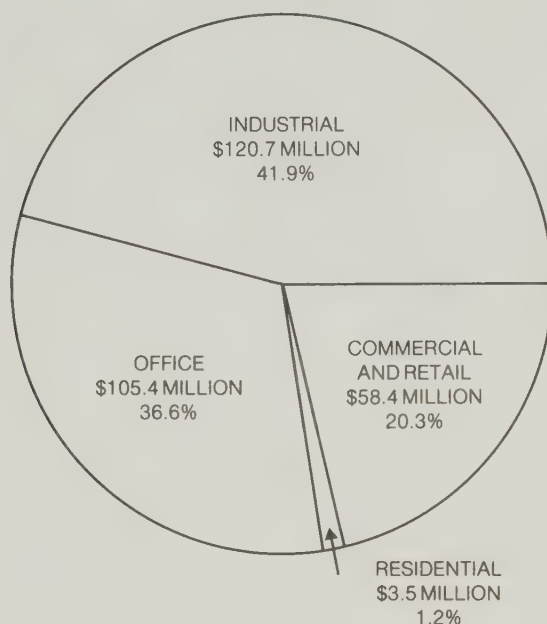
CLASS	B.C.		ALTA./SASK.		MANITOBA		ONTARIO		QUE./N.B./N.S.		TOTAL	
Office	12.4%	\$5,140	5.7%	\$2,357	6.8%	\$2,810	13.2%	\$5,467	5.2%	\$2,189	43.3%	\$17,963
Industrial	5.5	2,291	5.0	2,058	1.8	743	16.9	7,009	1.6	668	30.8	12,769
Commercial and Retail	8.4	3,481	4.4	1,856	1.0	417	2.6	1,092	7.3	2,980	23.7	9,826
Residential	—	—	—	—	2.2	910	—	—	—	—	2.2	910
Total	26.3%	\$10,912	15.1%	\$6,271	11.8%	\$4,880	32.7%	\$13,568	14.1%	\$5,837	100.0%	\$41,468



Property cost by class and geographical area

NUMBER OF PROPERTIES AND % OF COST BY CATEGORIES TO TOTAL COST OF \$288 MILLION

CLASS	B.C.		ALTA./SASK.		MANITOBA		ONTARIO		QUE./N.B./N.S.		TOTAL	
Office	10	9.2%	10	6.0%	9	4.7%	14	13.7%	10	3.1%	53	36.6%
Industrial	12	6.1	28	6.5	10	2.1	92	25.4	14	1.8	156	41.9
Commercial and Retail	20	6.5	22	4.8	5	1.0	10	2.4	9	5.5	66	20.3
Residential	—	—	—	—	2	1.2	—	—	—	—	2	1.2
Total	42	21.8%	60	17.3%	26	9.0%	116	41.5%	33	10.4%	277	100.0%
Total Cost (\$ Million)	\$62.8		\$49.9		\$26.0		\$119.5		\$29.8		\$288.0	



Property costs by range

COST (Millions)	NUMBER OF PROPERTIES IN RANGE	TOTAL COST OF ALL PROPERTIES IN RANGE (Thousands)	% OF TOTAL COST OF ALL PROPERTIES	AVERAGE COST (Thousands)
Under \$1	189	\$ 76,344	26.50	\$ 404
\$1 to \$2.5	67	104,208	36.17	1,555
\$2.5 to \$5	15	54,191	18.81	3,613
\$5 to \$10	4	24,849	8.63	6,212
\$10 to \$20	2	28,506	9.89	14,253
Total	277	\$288,098	100.00	\$ 1,040

Schedule of properties sold

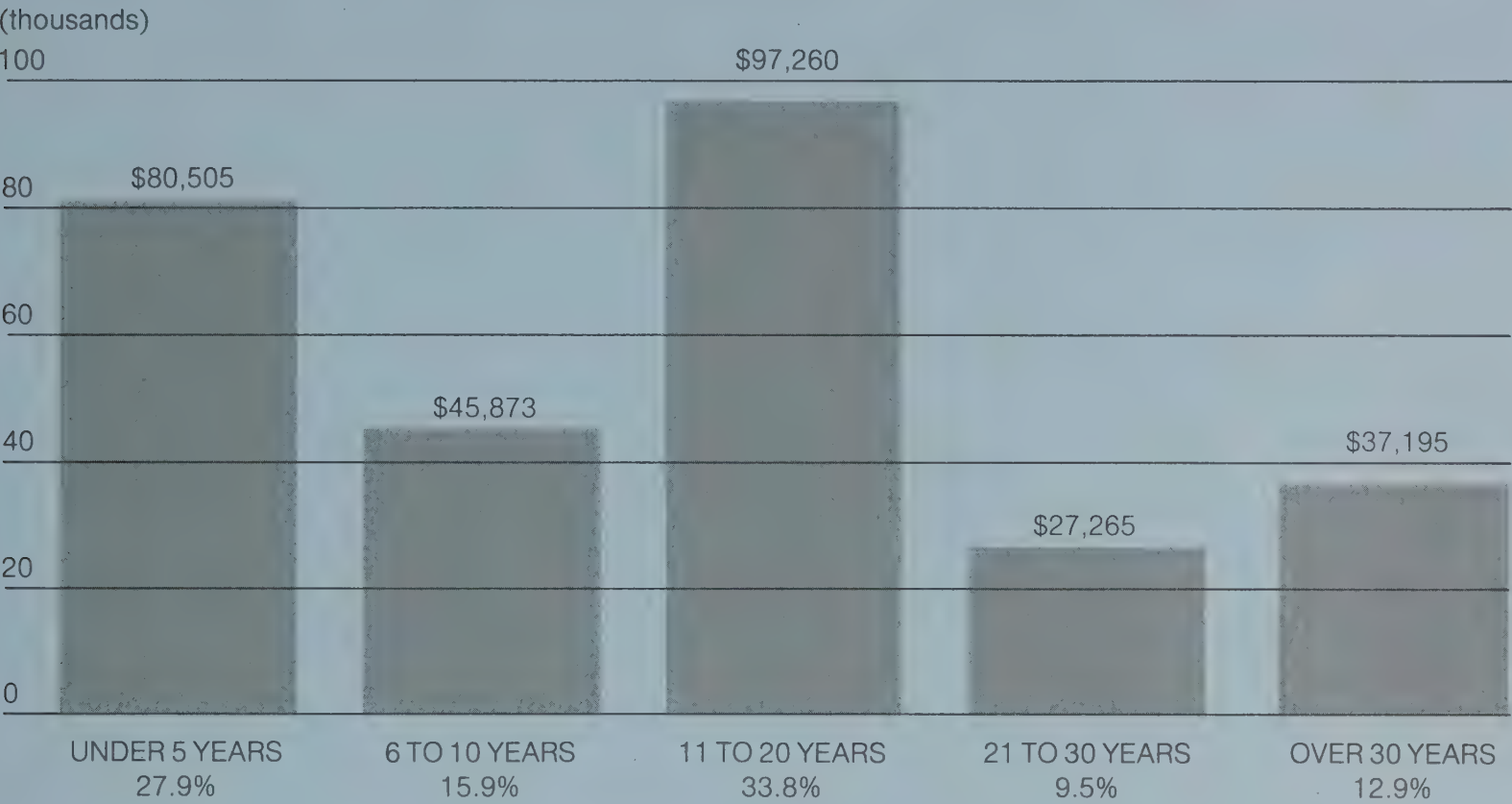
OCTOBER 1, 1977 TO SEPTEMBER 30, 1978

<u>DESCRIPTION</u>	<u>LOCATION</u>	<u>DATE PURCHASED</u>	<u>P.P.L. COST</u>	<u>DATE SOLD</u>	<u>GROSS SALE PRICE</u>	<u>NET PROFIT*</u>	<u>LAST AP- PRAISED VALUE BEFORE SALE</u>
Service Station	Edmonton	Feb. 1960	104,150	Jan. 1978	170,000	65,850	110,000
Retail Plaza	Saskatoon	Mar. 1969	344,700	Feb. 1978	450,000	105,300	400,000
Industrial Building	Quebec	Aug. 1972	685,200	Apr. 1978	975,000	289,800	800,000
Retail Plaza	Halifax	July 1967	89,300	June 1978	97,000	7,700	100,000
Retail Plaza	Winnipeg	Jan. 1964	98,200	July 1978	115,000	16,800	115,000
Office Building	Winnipeg	Oct. 1960	612,400	Sept. 1978	725,000	112,600	715,000
Retail Office	Saskatoon	May 1969	369,300	Sept. 1978	525,000	155,700	400,000
Office Buildings	Seattle	Mar. 1977	8,230,000	Sept. 1978	11,860,000	3,630,000	8,230,000(1)
Shopping Plaza	Seattle	Feb. 1976	2,712,000	Sept. 1978	3,900,000	1,188,000	2,712,000(1)
			13,245,250		18,817,000	5,571,750	13,582,000

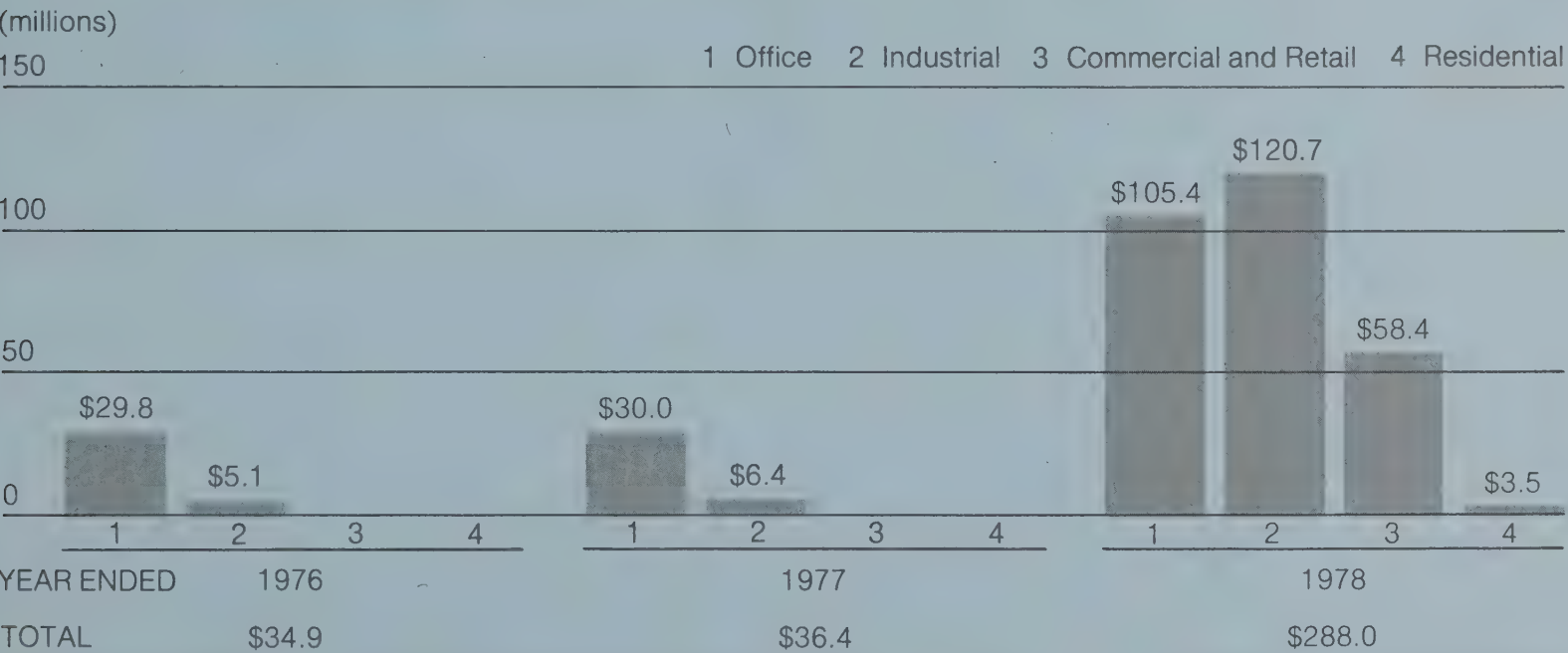
After payment of brokerage commissions and other sales expenses, and including substantial exchange gains on the U.S. properties.

(1) Valued at cost.

Property costs by age of buildings



Property costs at fiscal year end



Directors and Officers

PENSIONFUND REALTY LIMITED AND PENSIONFUND PROPERTIES LIMITED

DIRECTORS

*W. R. BADUN	Morguard Properties Limited	E. R. GRIFFITH	International Harvester of Canada Limited Pension Plan
E. Y. BAKER	Hospitals of Ontario Pension Plan	C. A. HARVIE	Du Pont of Canada Limited Pension Trust Fund
S. BALDWIN	City of Ottawa Superannuation Fund	*C. L. KEATLEY	Alberta Government Telephones Employees' Pension and Death Benefit Fund
*D. A. BEGGS	Ontario Municipal Employees Retirement Board	W. A. MCCOLL	Hudson's Bay Company Pension Plan
T. A. BOYLES	The Bank of Nova Scotia Pension Fund	*D. J. MCGEE	CIL Pension Trust Fund
*C. F. BROWN	John Labatt Limited Retirement Plan for Salaried Employees	C. H. OTTO	Comstar Pension Trust Fund; Price Non-Bargaining Pension Plan
*G. D. BUHR	Teachers' Retirement Allowance Fund Board (Manitoba)	G. E. A. PACAUD	Morguard Properties Limited
*R. A. CALVIN	Imperial Trustees	T. E. STAPLES	Ontario Hydro Pension & Insurance Fund
*H. R. CROSBY	Board of Administrators, Teachers' Retirement Fund (Alberta)	B. B. CRAIG	Northern Telecom Limited
*H. M. CUNNINGHAM	The Trustees of Canada Packers Retirement Plan Trust	S. ANTER	Bell Canada
R. M. DALZELL	Morguard Properties Limited	R. M. MADILL	Shell Canada Pension Trust
V. V. GARLICK	Union Carbide Canada Limited Pension Plan	N. K. OWEN	Province of Saskatchewan
*H. W. C. GIBBS	Air Canada Pension Trust Fund	R. R. STONE	Cominco Limited
*R. A. GREINER	Morguard Properties Limited		

*Members of the Executive Committee

OFFICERS

PENSIONFUND REALTY LIMITED

Chairman	T. A. BOYLES
President	R. M. DALZELL
Vice President	R. A. GREINER
Treasurer	A. S. FORSEY
Secretary	G. E. A. PACAUD
Asst. Treas.	J. P. RENEHAN
Asst. Sec.	R. W. HESLOP
	W. A. HOUGHTON
	M. H. MORGAN
	C. M. RAMSAY
	A. K. STEPHENS

PENSIONFUND PROPERTIES LIMITED

Chairman	C. L. KEATLEY
President	R. A. GREINER
Treasurer	A. S. FORSEY
Secretary	G. E. A. PACAUD
Asst. Treas.	J. P. RENEHAN
Asst. Sec.	W. A. HOUGHTON
	M. H. MORGAN
	A. K. STEPHENS
	C. M. RAMSAY
	R. W. HESLOP

Management Committee of Morguard Properties Limited, the Adviser



Left to right:

C. T. MORRA, B.A., LL.B., Secretary

W. A. HOUGHTON, Vice President—Investments

A. K. STEPHENS, F.R.I., Vice President—Acquisition & Development

A. S. FORSEY, C.A., Vice President—Finance

M. H. MORGAN, F.R.I.C.S., F.R.I., Vice President—Property Management

W. R. BADUN, P.Eng., M.B.A., Chairman of the Board

R. A. GREINER, F.R.I., President & Chief Operating Officer

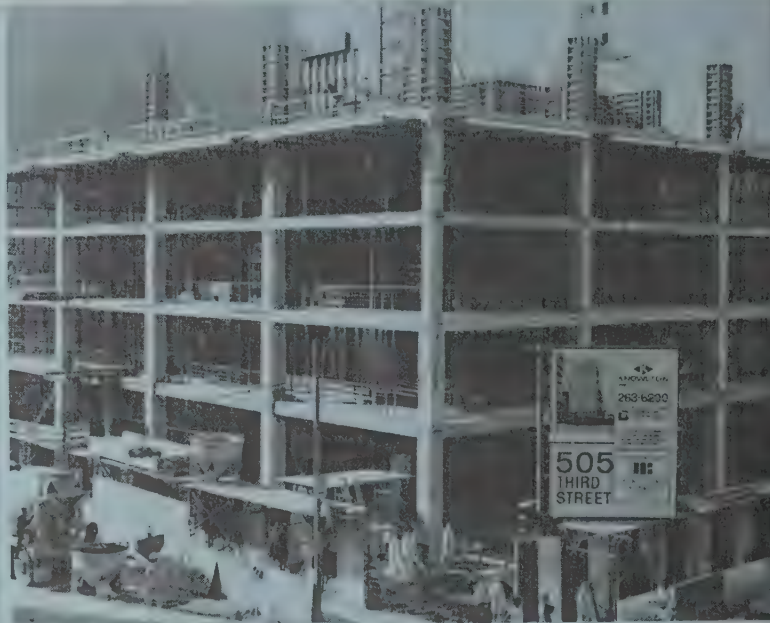
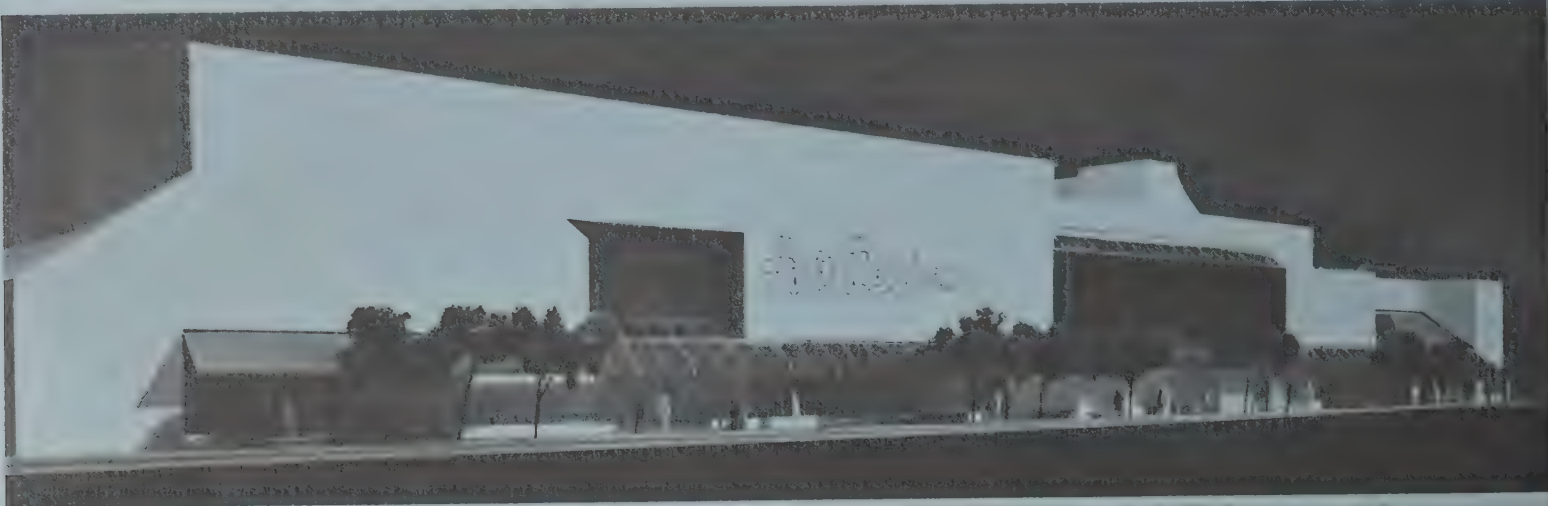
C. R. CUMMINS, Vice President

G. E. A. PACAUD, B.Sc., LL.B., Senior Vice President

Absent:

R. W. HESLOP, B.Sc., F.R.I., Vice President

Some properties which reflect the range of the holdings of P.R.L. and P.P.L.



Top: Toronto; 50 Bloor Street West

Left: Calgary; 5th Avenue and 3rd Street

Right: Calgary; 5th Avenue and 3rd Street under construction

Bottom: Ottawa; Inn of the Provinces



Top: Longueuil, P.Q.; Place des Ormeaux

Left: Mississauga; Meadowvale Corporation Centre

Right: Vancouver; U.K. Building

Bottom: Seattle; South Centre Corporate Square

Real Estate Offices: Morguard Properties Limited, the Adviser

HEAD OFFICE

Suite 300
1027 Yonge Street
Toronto, Ontario
M4W 3E8

HALIFAX BRANCH

6009 Quinpool Road
Halifax, Nova Scotia
B3K 5J7
Mrs. B. Oldfield

QUEBEC CITY BRANCH

Ch. 801
Edifice Banque Royale
710 Place D'Youville
Quebec City, Quebec
G1R 4Y4
Mr. J. Larose

MONTREAL BRANCH

Suite 310
1470 Peel Street
Montreal, Quebec
H3A 1T1
Mr. R. W. Heslop, B.Sc., F.R.I.

OTTAWA BRANCH

Suite 303
350 Sparks Street
Ottawa, Ontario
K1R 7S8
Mr. A. Egan, C.P.M.

50 BLOOR STREET

50 Bloor Street West
Toronto, Ontario
M4W 1A1
Mr. D. Clark, B.Com., M.B.A.

TORONTO BRANCH

Suite 201
505 Consumers Road
Willowdale, Ontario
M2J 4V8
Mr. J. D. Slidders, B.Com., F.R.I.

MEADOWVALE BRANCH

Plaza 1
2000 Argentia Road
Mississauga, Ontario
Mr. R. Stephens

WINNIPEG BRANCH

Suite 803
310 Broadway Avenue
Winnipeg, Manitoba
R3C 0S6
Mr. O. W. Steele, A.A.C.I., C.P.M., F.R.I.

EDMONTON BRANCH

Suite 1402
10025 Jasper Avenue
Edmonton, Alberta
T5J 1S6
Mr. D. Jamieson, B.Com.

CALGARY BRANCH

Suite 502
239—8th Avenue S.W.
Calgary, Alberta
T2P 1B9
Mr. T. F. Prete

VANCOUVER BRANCH

Suite 150
409 Granville Street
Vancouver, British Columbia
V6C 1T2
Mr. V. J. Parker, M.Sc., M.C.I.P., P.Eng.

VICTORIA BRANCH

Suite 620
880 Douglas Street
Victoria, British Columbia
V8W 2B7
Mr. J. W. E. Hayes, F.R.I.

